

OUTLOOK

A Publication of the South Dakota Retirement System

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Board Action

Board Makes Proposals to Help Maintain Security of SDRS

The investment climate in recent years has resulted in a nationwide concern over the funded status of public retirement plans. Governing boards, legislators and executive branch representatives across the

country are considering initiatives to improve the funded status of retirement plans.

SDRS has fared better than virtually all other public plans because of the strength of its funded status before the investment decline,

the substantial reserve set aside to counter a downturn, prudent recommendations for benefit improvements and superior investment performance in good and bad times. As a result, SDRS is still well-funded.

Nevertheless, only a modest margin remains to protect the system from future unfavorable experience. Accordingly, the SDRS Board of Trustees has initiated proposed changes to several SDRS benefit provisions. The reasons for proposing changes to these specific provisions include:

- costs that are higher than anticipated
- benefits that exceed the amount intended
- inequitable distribution of benefits

While the proposed changes don't significantly reduce the current costs of the system or add dollars to the reserve, they do avoid the addition of new expenses in the future. As a consequence, actual benefit costs will be more closely in line with expected benefit payments — a critical goal in maintaining the strong financial condition of the system. **OUTLOOK**

2003 Board Election Results

Three Incumbents Begin New Terms

June elections for three positions sent incumbent members back to the SDRS Board of Trustees to serve four-year terms. Running unopposed, Elmer Brinkman won

his fourth term as representative for county commissioners. Also running unopposed, Justice Steve Zinter, representative



Elmer Brinkman

for justices, judges and magistrate judges, was elected to his third term. In the race for municipal

employee representative, incumbent Tracy Dahl-Webb defeated two challengers. This term is the third for Ms. Dahl-Webb.



Tracy Dahl-Webb



Justice Steve Zinter

The voter response in this election was moderate, with 22 percent of eligible members responding. A total of 711 ballots were cast. **OUTLOOK**

Focus for 2004: Long-term Issues

Board Begins Comprehensive Review of SDRS

The Board of Trustees has begun a comprehensive review of SDRS' financial status and operational issues. The board undertakes this planning and monitoring process each year to ensure the financial integrity of the system and to adopt any operational changes and legislative initiatives. This year, the board will also review the plan's long-term actuarial assumptions and benefit practices.

Current Status

The board begins each annual review with an analysis of the system's current status. This includes the approval of the following reports:

- **financial statements** — a compilation of the system's financial information
- **financial audit** — a validation of the accuracy and completeness of the financial data
- **actuarial valuation** — a comparison of the system's projected future income with projected future benefit payments
- **investment report** — a summary of the investment performance of the SDRS Trust Fund

Review of Selected Plan Provisions

The second area of review targets SDRS plan provisions that may need operational changes or could

be the focus of legislative action in an upcoming session. This year the board is considering several legislative changes. It is likely that the board will be proposing legislation that will address the following questions:

- What pay should be included when calculating a member's final average compensation?
- What is an appropriate rate to charge for optional spouse coverage?
- What is an appropriate rate of interest on refunds from the system?
- What is an appropriate rate for the purchase of credited service?
- What should SDRS' policy be regarding members who retire and then are rehired?
- What are the actuarial conditions that would require a report to the Legislature on the financial status of the system?

(For more information on the board's proposed legislation related to these questions, see Pages 3 and 4.)

Long-term Issues

During the next several months, the board will address the underlying actuarial assumptions that are used to project SDRS' financial strength. These assumptions include the system's expectations about items such as the rate of return from investments, the rate of inflation, and the number of members who

will retire early. The next issue of *Outlook* will cover the concept of assumptions, how they are interconnected and their importance to SDRS members. OUTLOOK

Emphasis on Customer Service

Rob Wylie Appointed SDRS Administrator

The SDRS Trustees appointed Rob Wylie as the system's new administrator at their board meeting on August 26, 2003. He becomes the second administrator in the system's 29-year history.

A native of Aberdeen, Wylie received his undergraduate degree from South Dakota State University and earned an MBA from the University of South Dakota. He first joined the SDRS staff in 1982. For the past 15 years he has served as the system's finance officer.

Rob looks forward to working with SDRS in his new capacity and notes that, "While we continue to be vigilant over the financial well-being of SDRS, I want my administration to focus on the members, bringing them the best customer service possible." OUTLOOK

2004 Legislative Session

Board Considers Proposed Legislation

The board will be considering legislative proposals to change a number of SDRS' plan provisions. These changes would reduce or eliminate costs to the system or, in the case of the

requirement for reporting the funding status, clarify the statute. The board will be reviewing draft legislation at its December meeting in preparation for the 2004 legislative session. [OUTLOOK](#)

Final Average Compensation Caps

Current Provisions

- Compensation in last quarter cannot exceed 125% of any previous quarter.
- Average compensation in last four quarters cannot exceed 115% of any previous quarter.

Proposed Changes

- Compensation in last quarter cannot exceed 105% of any previous quarter.
- Average compensation in last four quarters cannot exceed 105% of any previous quarter.

Optional Spouse Benefit

Current Provisions

Cost

- 0.8% of compensation

Open Enrollment

- Not specified and not prohibited

Benefit

- 40% of highest compensation

Proposed Changes*

Cost

- 1.2% of compensation

Open Enrollment

- Prohibited

Benefit

- 40% of final average compensation

Note: Optional spouse cost and experience will be reviewed every three years as administrative procedure.

*Amendment pending

Reporting Funding Status

Current Provisions

Formal report and recommendations for benefit changes to governor and Legislature if:

- Funding period exceeds 50 years
- Funded ratio (actuarial value of assets) less than 80%
- Decrease has occurred over three actuarial valuations

Proposed Changes

- Formal report on funded status of SDRS to governor and Legislature annually.
- Formal report and analysis of conditions required for improvement in funded status to governor and Legislature if any of the following conditions exist as of any actuarial valuation:
 - Funding period exceeds 30 years
 - Funded ratio (lesser of actuarial or market value of assets) less than 80%
 - Market value of assets less than 90% of actuarial value of assets
- Formal report, analysis and recommendations for benefit, contribution or actuarial assumption changes required if any of the above conditions exist for three consecutive actuarial valuations.

• **For more information about the South Dakota Retirement**

Interest on Accumulated Contributions

Current Provisions

No greater than 90% of 91-day US Treasury Bills for preceding calendar year

- Maximum: 10%
- Minimum: 5%

Proposed Changes

No greater than 90% of 91-day US Treasury Bills for preceding calendar year

- Maximum: 8%
- Minimum: None

Retire/Rehire

Current Provisions

Normal or Special Early Retirement

- Benefits paid during reemployment without adjustment
- Rehired member treated as continuing member
- Recalculated benefit paid at re-retirement considers all periods of employment

Early Retirement

- Benefits suspended during reemployment
- Rehired member treated as continuing member
- Recalculated benefit paid at re-retirement considers all periods of employment

Proposed Changes

Normal or Special Early Retirement

- Benefits paid during reemployment but COLA suspended (except for Class B Public Safety member who is rehired as Class A member)
- Rehired member treated as new member
- Add-on benefit paid at re-retirement considers reemployment period only
- Current retirees grandfathered

Early Retirement

- Benefits paid during reemployment but COLA suspended (except for Class B Public Safety member who is rehired as Class A member)
- Rehired member treated as new member
- Add-on benefit paid at re-retirement considers reemployment period only
- Current retirees subject to the above provisions as of July 1, 2004

Cost of Purchase of Credited Service

Current Provisions

- 150% of member contribution rates

Proposed Changes

Class A and Class B-Judicial

- Less than age 45: 200% of member contribution rate
- Age 45 or older: 400% of member contribution rate

Class B-Public Safety

- Less than age 35: 200% of member contribution rate
- Age 35 or older: 400% of member contribution rate

After July 1, 2004, current contribution rates apply for all purchases.

The following is a summary of major issues that came before the SDRS Board of Trustees at its regular meeting on April 9; at a special meeting on May 1; at a joint meeting with the Retirement Laws Committee on June 18; at its regular meeting on June 19; and at its regular meeting on September 17, 2003.

APRIL 9, 2003

Budget Report

Rob Wylie, SDRS finance officer, reviewed the Fiscal Year 2004 Budget Report. Mr. Wylie advised that the Legislature had deleted the funding for the 2.8 additional positions that had been included in the Governor's Recommended Budget for SDRS.

Investment Update

Steve Myers, state investment officer, reported on SDRS' fund returns for the fiscal year to date.

Quadrennial Independent Report

Mr. Donn Reinelt, of KPMG Investment Advisors, presented the SDRS Quadrennial Independent Report on Investment Performance for the period ending June 30, 2002. He stated that SDRS' fund performance had benefited from broad diversification.

2003 Wilshire Report

Paul Schrader, consulting actuary, presented excerpts from the 2003 Wilshire Associates' Study of State Retirement Systems. He stated that, as of June 30, 2002, SDRS was one of only three systems surveyed that had a funded ratio of 100 percent or more based on its market value of assets.

Retire/Rehire Issue

Paul Schrader presented a report on the retire/rehire issue. Because the retire/rehire cost-neutral proposal submitted by the board was not enacted by the 2003 legislature, Mr. Schrader offered a new proposal for the board's consideration.

Executive Search

After hearing a report from trustee Dahl-Webb on the search for an SDRS administrator, the board agreed to retain AES International to assist in developing a competency profile and selection criteria.

Trustee Attendance at Board Meeting

Present: Brian Berglin, Elmer Brinkman, Tracy Dahl-Webb, Bryan Gortmaker, James Hansen, Royce Hueners, Louise Loban, K.J. McDonald, Dave Merrill, Pam Roberts, Lowell Slyter, Wes Tschetter, Don Zeller, Sandy Zinter, Steve Zinter, Steve Myers-Ex Officio
Absent: Carol Burch

MAY 1, 2003

Executive Search

During a special meeting on May 1, the SDRS Board of Trustees heard a report from Jerry Neff of AES International. Mr. Neff explained the profiling process that would be used in the search for a new SDRS administrator. Following the profiling session, the board agreed to publish the job announcement for an administrator beginning the week of May 5, and to retain AES International to provide additional support for the selection process.

Trustee Attendance at Board Meeting

Present: Elmer Brinkman, Carol Burch, Tracy Dahl-Webb, James Hansen, Royce Hueners, Louise Loban, K.J. McDonald, Dave Merrill, Pam Roberts, Lowell Slyter, Don Zeller, Sandy Zinter, Steve Zinter, Steve Myers - Ex Officio
Absent: Brian Berglin, Bryan Gortmaker, Wes Tschetter

JUNE 18, 2003

Joint Meeting of the SDRS Board and the Retirement Laws Committee

Investment Update

Steve Myers, State Investment Officer, briefly reported on SDRS'

fund returns for the fiscal year to date.

Membership and Experience Report

Wade Hubbard, acting administrator, presented the SDRS Membership and Experience Report, highlighting the changes from the previous year.

SDRS Funded Status

Paul Schrader, actuarial consultant, reviewed SDRS' funded status as of June 30, 2002 and projected the funded status as of June 30, 2003, based on various investment return scenarios. He emphasized that, despite diminished investment performance, SDRS remains well-funded.

Review of SDCL 3-12-122

A proposed amendment to clarify SDCL 3-12-122 was presented and discussed in detail.

SDRS Benefit Structure

Paul Schrader and Wade Hubbard reviewed SDRS' benefit structure and presented alternatives to curb higher-than-expected costs and reduce the potential for abuse in the future.

Retire/Rehire Issue

Paul Schrader presented a proposal to address the retire/rehire issue.

Actuarial Assumptions

Paul Schrader briefly discussed the objectives of the actuarial assumptions, the current assumptions and the effect changes to the assumptions could have on SDRS.

Executive Search

Sandy Zinter provided an update on the search committee's progress in identifying qualified applicants for the SDRS administrator position.

JUNE 19, 2003

Election Results

The board accepted the canvassers' report and declared the winners in

the 2003 Board of Trustees' election. (See article on Page 1.)

SDRS Proposed Budget for FY2005

The board reviewed and approved proposed budgets for SDRS and the SRP.

Investment Council Representative

Rob Wylie, SDRS finance officer, was selected to serve as the board's representative on the South Dakota Investment Council until a permanent administrator is appointed.

SDSEO

Ken Melius, executive director of the South Dakota State Employees Organization, presented the retirement-related resolutions adopted by its House of Delegates.

Jailer's Request

The board approved the Walworth County Jailers' request for Class B Public Safety membership.

Trustee Attendance at June 18 & 19 Board Meetings

Present: Brian Berglin, Elmer Brinkman, Carol Burch, Bryan Gortmaker, James Hansen, Royce

Hueners, Louise Loban, K.J. McDonald, Dave Merrill, Pam Roberts, Lowell Slyter, Wes Tschetter, Don Zeller, Sandy Zinter, Steve Zinter, Steve Myers-Ex Officio
Absent: Tracy Dahl-Webb

SEPTEMBER 17, 2003

Election of Chair and Vice-chair

The board re-elected Elmer Brinkman as chair and Dr. Lowell Slyter as vice-chair for FY 2004 – 2005.

Actuary Succession Plan

The board adopted the actuary succession plan proposed by Paul Schrader, Buck Consultants.

Study of Assumptions

The board approved a motion to undertake a study of all actuarial assumptions.

Proposed Legislation

The board approved the proposed legislation concerning final average salary caps, optional spouse benefits, effective rate of interest, cost of purchasing prior service, retire/rehire policies, final average compensation base for

benefits and statutorily required reports to the Legislature and governor on the funding status of the system.

Investment Council Representative

The board appointed Rob Wylie to serve as SDRS' representative on the South Dakota Retirement Council. The appointment will be reviewed annually at the June board meeting.

Wade Hubbard Recognized

The board adopted a resolution recognizing Wade Hubbard for his service as interim administrator, March through August, 2003, and thanking him for his contributions.

Trustee Attendance at Board Meeting

Present: Brian Berglin, Elmer Brinkman, Carol Burch, Tracy Dahl-Webb, Bryan Gortmaker, James Hansen, Royce Hueners, Louise Loban, K.J. McDonald, Dave Merrill, Lowell Slyter, Wes Tschetter, Don Zeller, Sandy Zinter, Steve Myers-Ex Officio

Absent: Pam Roberts, Steve Zinter